



CONTRIBUTION OF IT SECTOR IN INDIAN ECONOMY

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ABSTRACT

Information technology is an important emerging sector of the Indian economy. The Government of India has identified IT industry as one of the major industries in India and it plays an important role in achieving the policy objectives like economic development. The IT industry has mellowed over the years and has emerged to be a chief contributor to the global economic growth. The IT sector, constituted by the software and services, Information Technology Enabled Services (ITES) and the hardware segments, has been on a gradual growth trajectory with a steady rise in revenues as witnessed in the past few years. The size of this sector has increased at a rate of 35% per year during the last 10 years. The share of information technology industry is 7 percent of gross domestic product (GDP) in Indian economy according to NASSCOM (www.imdr.edu; www.nasscom.org). The prime aim of this paper is to analyze the growth and performance of information technology industry in India. This paper examines the question: How information technology contributes to India's economic development in a holistic and broader way. Keywords: IT-ITES, Contribution to GDP, Employment, Export and Revenue. The IT/ITES industry has contributed to the growth and development of the country in terms of various economical and social aspects through its "for-profit" as well as "not-for-profit" activities.

Introduction

Today's escalating, competitive and demanding environments have forced companies to be more efficient, operate leaner and continuously create new procedures to keep ahead of competitors. India has become a target destination for multinationals to back end their IT operations in India owing to its strong value proposition. The possibilities for broad-based IT-led economic growth in India, includes increasing value-added, using better telecom links to capture more benefits domestically through offshore development for developed country firms, greater spillovers to the local economy, broadening the IT industry with production of telecom access devices, improving the functioning of the economy through a more extensive and denser communications network, and improving governance. Information technology essentially refers to the digital processing, storage and communication of information of all kinds. Therefore, IT can potentially be used in every sector of the economy. The true impact of IT on growth and productivity continues to be a matter of debate, in the India, which have been the leader and adopter of IT. In the last two decades, the Indian IT/ITES (Information Technology Enabled Service) industry has contributed significantly to Indian economic growth in terms of GDP, foreign exchange earnings and employment generation. This paper consider directly by examining the performance of India's IT sector, explore the trends of contribution of IT industry in the total GDP.

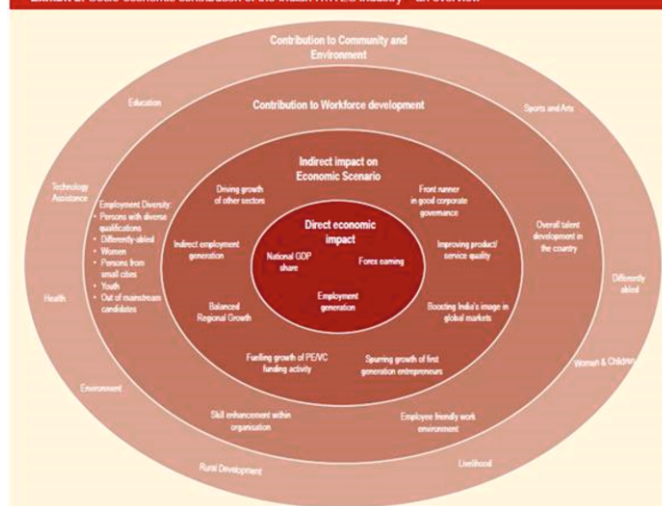
Direct Contribution to the Indian Economy

The Indian IT industry has grown almost tenfold in previous decade. Domestic software has grown at 46 per cent while software exports have grown at 62 per cent over the last 5 years. The current and evolving role of IT/ITES industry in India's economy is well established. The sector is proving to be the major growth pole within the services sector, which in turn drives several economic indicators of growth in the country. A few key indicators of direct contribution are:

- Growing share of the country's GDP: The sector's contribution to the country's GDP has been steadily increasing from a share of 1.2% in FY98 to 5.2% in FY07
- Boosting the foreign exchange reserve of the country: Export earnings in FY08 stood at approximately USD 40.0 billion with a growth of 36%.
- Employment generation: Direct employment in the sector is expected to be 2.0 million by end of FY08, growing at a CAGR of 26% in the last decade, making it the largest employer in the organized private sector of the country.

Additional employment generation: The indirect employment generated, at the rate of 4 additional jobs created in the economy for every 1 job created in the sector, is even more socially relevant as nearly 75% of the workforce employed in those additional jobs are SSC/HSC or less educated. Driving growth of other sectors of the economy: Apart from contributing to the growing income of its direct stakeholders (promoters, shareholders and employees), the IT/ITES industry has

Exhibit 2: Socio-economic contribution of the Indian IT/ITES industry – an overview



a multiplier effect on other sectors of the economy with an output multiplier of almost 2 through its non-wage operating expenses, capital expenditure and consumption spending by professionals. Study show that USD 15.85 billion spent by the IT/ITES industry in the domestic economy in FY06 generates an additional output of USD 15.5 billion. Encouraging balanced regional development: By gradually spreading their business operations to smaller Tier II/III cities, the IT sector (besides generating revenue and employment) is also assisting in improving the supply of talent pool and development of physical and social infrastructure, either directly by themselves or by spurring the Government to action. In case of Bhubaneswar (a Tier III city), some of the key impact of the IT/ITES sector has been,

1. Increase in software exports - Software exports from the state reached USD 183 million in 06-07, a 60% rise over exports in 05-06, on track to reach the target of 500mn USD by 2011-12.
2. Increase in registered IT/ITES units - The number of registered and exporting units has risen steadily showing a CAGR of 118 and 170% respectively, as compared to 98-99. Besides the capacity expansion of existing units, many of the big companies are also setting up operations in the city
3. Employment - Supply of IT professionals, which was higher than demand till 2004, now have a shortfall of 62,697. Demand for IT professionals is expected to reach 430,000 by 2011-12 with the corresponding figures on indirect employment being 1,720,000
4. Education - While building and expanding capacity of educational institutes are underway, IT majors are undertaking training initiatives to improve student quality. At least 5 new educational institutions (including IIIT and IIT Kharagpur campus) by both Government and private players are also being set up.

5. Infrastructure and other amenities - Keeping in line with the expansion/entry plans of major IT/ITES companies, IT parks and townships are being built with a corresponding improvement in other amenities like roads, housing, retail and entertainment facilities.

India's GDP and Information Technology Industry Growth: Indian information technology industry has grown manifold during the period 1997-98 to 2007-08 as shown in table 1. The size of Indian information technology industry has increased from USD 5.0 billion in 1997-98 to USD 64.0 billion in 2007-08. The share of information technology industry in Gross Domestic Product has increased from 1.2 percent in 1997-98 to 5.2 percent in 2007-08. This sector is expected to reach USD 73.1 billion in FY2010, an aggregate growth of 5.4%. Thus, information technology industry is considered as a key industry for the development of Indian economy.

Table 1 - India's GDP and Information Technology Industry Growth

Years	GDP Growth (USD Billion)	IT Growth (USD Billion)	%age share of IT Industry in GDP
1997-98	411.570	5.0	1.2
1998-99	440.597	6.0	1.4
1999-00	461.914	8.2	1.8
2000-01	473.050	12.1	2.6
2001-02	494.997	13.4	2.7
2002-03	573.167	16.1	2.8
2003-04	669.442	21.5	3.2
2004-05	783.141	28.2	3.6
2005-06	877.224	37.4	4.3
2006-07	1098.945	47.8	4.3
2007-08	1232.946	64.0	5.2
2008-09	1150.0	69.4	6.0
2009-10	1198.36	73.1	6.1

Diversity in Employment

Besides being the largest employer in the organized private sector, the IT/ITES industry also consciously follows a diverse employment practice and encourages diversity in the work place in terms of qualification, abilities, gender, skill sets. Creating employment opportunities in smaller towns/cities: By recruiting talent from non-metro towns and rural background, the industry has reached out to the educated resource pool in these places and created employment opportunities, which hitherto was largely limited. Large IT/ITES companies often have 33 to 50% of their employees coming from non-metro/rural areas. 64% of the companies surveyed by Deloitte employ people with disabilities. Opening opportunities for non-technical personnel: The growing employment opportunities in this sector (both direct and indirect) are not restricted to the better educated or technically educated people alone. While 75% of the employment generated through the indirect route are filled in by candidates who are SSC/HSC or less educated, companies also help under qualified candidates to reach a desired skill level by investing in their training and skill up gradation.

- Promoting women empowerment: The growing trend in the number of women employed in this sector indicates that not only does the industry offer equal opportunity to women but also has in place proactive and sensitive mechanisms which counter the common causes that discourage women from pursuing employment in the corporate sector.
- Women employment in the industry is set to rise to 45% by 2010 from the current 30%.
- Providing high growth opportunities for the youth: The industry has created excellent employment and fast track growth opportunities for the younger section of the population and is likely to become one of the largest employers of a growing 'young population' of India.
- The overall median age group of the sector is 28.9 years with 70% of the workforce being in the age-group 26-35 years.
- Creating opportunities for the 'out-of-the-mainstream' candidates: The IT industry through its innovative recruitment practices has also hired persons who would not typically be considered employable such as retired persons and housewives.

Conclusion

The IT sector has brought about revolution in India particularly since 1990s. This is because it has reduced intermediation in business and society, provided solutions across sectors (be it agriculture sector or manufacturing sector), re-organized firm level behavior, empowering individuals by providing them with more information and is increasingly becoming an important tool for national

and rural development through E- governance, E-Banking and ECommerce programmers. The export performance of India's software and service sector during the last decade has been unprecedented. As a result, the software and service sector accounts for over 20% of India's total exports and 2.6% of GDP. In addition, there has been a marked decline in the share of onsite services and today almost 60% of India's software and services export takes the form of off shore services. The undifferentiated and service nature of Indian software firms has meant that human capital has acquired an importance that was hitherto reserved for financial and physical capital in Indian industry. In an extremely competitive international market for software services, Indian firms have tried to emphasize the quality of procedures and human resource used by them to gain competitive advantage. Information technology is rapidly changing economic and social activities. It provides opportunities and challenges for making progress with accelerated growth and poverty reduction in India. Indian IT industry is one of the key industries to contribute its significance in the growth variables of GDP of India, exports, revenue and employment. The emergence of Indian information technology sector has brought about sea changes in the Indian job market. The IT sector of India offers a host of opportunities of employment. So in conclusion it can be said that the growth of India's IT industry has been instrumental in facilitating the economic progress of India. To conclude, it can be said that India is now an integral part of the Global Village, thanks to the developments witnessed in Information Technology

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